

**DENISON MUNICIPAL UTILITIES**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2011

# DENISON MUNICIPAL UTILITIES

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## **DENISON MUNICIPAL UTILITIES**

### **Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2012
Brad Nelson	Vice Chairman	2013
Nancy Bradley	Board Member	2016
Dane Dammen	Board Member	2014
Chad Langenfeld	Board Member	2015
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

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John Keblesh, C.P.A.  
Gregory A. Harr, C.P.A.

Dwain E. Wulf, C.P.A.  
Daniel R. Holt, C.P.A.  
Daniel A. Dudley, C.P.A.  
Geoffrey F. Schnathorst, C.P.A.  
Catherine T. Kellogg, C.P.A.

## INDEPENDENT AUDITORS' REPORT

Denison Municipal Utilities  
Denison, Iowa

We have audited the accompanying financial statements of the business-type activities, each major enterprise fund, and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of Denison Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Denison Municipal Utilities as of June 30, 2010, were audited by other auditors whose report dated September 16, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of Denison Municipal Utilities are intended to present the respective financial position and results of operations and cash flows of proprietary fund types and the fiduciary fund of only that portion of the financial reporting entity of the City of Denison, Iowa, that is attributable to the transactions of the Denison Municipal Utilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major enterprise fund and the fiduciary fund of Denison Municipal Utilities, a component unit of the City of Denison, Iowa, as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011, on our consideration of Denison Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The June 30, 2010 information was subjected to the auditing procedures applied in the June 30, 2010 audit of the financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2010 financial statements as a whole.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

September 21, 2011

By \_\_\_\_\_  
Certified Public Accountant

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*This section of Denison Municipal Utilities annual report presents an analysis of the Utilities financial performance for the fiscal year ended June 30, 2011. Denison Municipal Utilities is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment utility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. We encourage readers to consider the information presented here in conjunction with the utilities financial statements and notes to the basic financial statements in order to enhance their understanding of the utilities financial performance.*

### 2011 FINANCIAL HIGHLIGHTS

- Total combined operating revenues increased \$1,462,676 or 11.4% from the prior year. Increased gallons of waste treated by the joint treatment facility contributed to this increase. A rate increase implemented in March 2010 for electric usage also contributed to the increase in revenues.
- Interest income decreased by \$86,683 or 43.2% from the prior year. This decrease is a direct result of the Federal Reserve Bank's low interest rate policy.
- Operating expenses increased by \$723,024 or 6.69% from the prior year. The cost of wholesale power has continued to increase causing operating expenses to rise. Additional costs were incurred due to the increased gallons of waste treated by the joint treatment facility.
- Total assets increased \$1,760,835 and total liabilities decreased \$121,098, resulting in total net assets increasing \$1,881,933 or 5.60% from the prior year. Investments in capital assets increased \$2,849,863 funded by amounts set aside in cash reserve funds.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

### REQUIRED FINANCIAL STATEMENTS

Denison Municipal Utilities presents its proprietary funds financial statements using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The annual report consists of a series of financial statements and other information, as follows:

*Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the Utilities financial activities.

The *Statement of Net Assets* presents information on the Utilities assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets

may serve as a useful indicator of whether the financial position of each utility is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the success of the Utilities operations. It can be used to determine whether each utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utilities profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utilities cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utilities financed its activities and how it met its cash requirements.

*Notes to Financial Statements* provide additional information essential to a full understanding of the data provided in the basic financial statements.

*Required Supplementary Information* further explains and supports the financial statements with a comparison of the Utilities budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

## FINANCIAL ANALYSIS OF THE UTILITIES

The Statement of Net Assets includes all of the Utilities assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utilities.

The analysis below focuses on the net assets and changes in net assets of the Utilities.

<u>Condensed Statement of Net Assets</u>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 14,604,169	\$ 14,367,861	\$ 14,137,880
Capital Assets	<u>26,827,615</u>	<u>25,303,088</u>	<u>25,165,609</u>
Total Assets	<u>41,431,784</u>	<u>39,670,949</u>	<u>39,303,489</u>
Long-term debt outstanding	3,434,191	4,030,968	4,216,000
Other liabilities	<u>2,494,290</u>	<u>2,018,611</u>	<u>2,262,998</u>
Total Liabilities	<u>5,928,481</u>	<u>6,049,579</u>	<u>6,478,998</u>
Invested in Capital Assets, net of related debt	22,770,294	20,711,477	20,347,765
Restricted net assets	776,067	1,171,572	1,149,889
Unrestricted net assets	<u>11,956,942</u>	<u>11,738,321</u>	<u>11,326,837</u>
Total net assets	\$ <u>35,503,303</u>	\$ <u>33,621,370</u>	\$ <u>32,824,491</u>



## 2011 OPERATING RESULTS

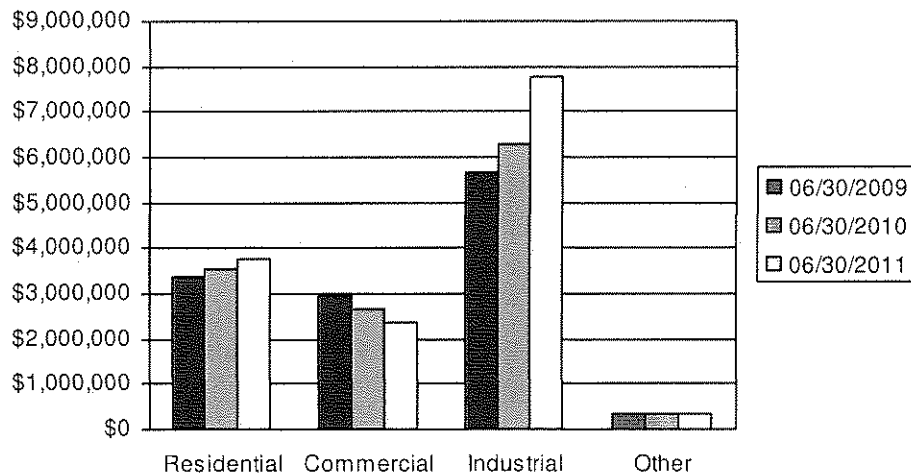
The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets.

### Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Program revenues			
Operating revenues	\$14,288,827	\$ 12,826,151	\$ 12,322,748
Miscellaneous	482,528	225,812	239,967
Unrestricted investment earnings	<u>114,121</u>	<u>200,804</u>	<u>344,733</u>
Total revenues	<u>14,885,476</u>	<u>13,252,767</u>	<u>12,907,178</u>
Program expenses			
Operating expenses	11,533,458	10,810,434	10,316,220
Depreciation	1,326,990	1,328,885	1,295,386
Interest on long-term debt	143,095	156,236	172,873
Miscellaneous	<u>0</u>	<u>160,333</u>	<u>67,480</u>
Total expenses	<u>13,003,543</u>	<u>12,455,888</u>	<u>11,851,959</u>
Increase (decrease) in net assets	1,881,933	796,879	1,055,219
Unrestricted Net assets July 1	<u>33,621,370</u>	<u>32,824,491</u>	<u>31,769,272</u>
Unrestricted Net assets June 30	<u>\$35,503,303</u>	<u>\$33,621,370</u>	<u>\$32,824,491</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2011, 2010 and 2009.

**Comparison of Total Operating Revenues**



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2011, 2010 and 2009:

**Comparison of Electric Meters & Usage by Customer Class**

	2011		2010		2009	
	Meters	KWH	Meters	KWH	Meters	KWH
Commercial C1	628	19,023,247	636	23,063,268	554	27,280,359
Commercial C1M	19	779,771	16	2,576,431	116	3,387,028
Commercial C2M	0	0	0	4,399,600	21	6,850,700
Residential R1	2,439	30,350,038	2,435	17,269,284	1,187	12,570,051
Residential R2M	257	4,884,164	253	16,606,368	1,499	21,798,654
Industrial	52	91,338,647	43	77,125,050	9	73,316,960
Water plant		3,058,031		2,941,370		3,111,140
Sewer plant		5,815,992		4,266,982		4,359,250
City Government		2,763,204		2,873,190		3,019,010
Other DMU uses		582,894		597,480		603,620
<b>Total Meters &amp; KWH Billed</b>	<u>3,395</u>	<u>158,595,988</u>	<u>3,383</u>	<u>151,719,023</u>	<u>3,386</u>	<u>156,296,772</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2011, 2010 and 2009 is as follows:

**Comparison of Water Meters & Usage by Customer Class**

	2011		2010		2009	
	Meters	Gals.	Meters	Gals.	Meters	Gals.
Residential	2,244	116,905,000	2,256	119,503,000	2,243	121,448,000
Commercial	398	90,357,000	391	87,129,000	395	90,075,000
West Central Rural Water	4	194,039,000	4	183,453,000	4	169,036,000
Residential Outside City	130	11,329,000	131	11,583,000	131	10,826,000
Commercial Outside City	18	27,754,000	16	27,732,000	16	31,273,000
Industrial	8	413,894,000	8	396,904,000	8	409,225,000
Electric Department		1,158,000		459,000		718,000
Sewer plant		1,816,000		2,039,000		1,526,000
City Government		3,655,000		5,037,000		5,003,000
Other DMU uses		870,000		872,000		866,000
<b>Total Meters &amp; Gals. Billed</b>	<u>2,802</u>	<u>861,777,000</u>	<u>2,806</u>	<u>834,711,000</u>	<u>2,797</u>	<u>839,996,000</u>

**ANALYSIS BY FUND**

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2011 with a net asset balance of \$14,329,021 compared to the prior year ending net asset balance of \$13,879,768, an increase of 3.24%. An increase in kilowatts sold and the rate changes implemented offset by the increase in power cost contributed to the increase in net assets.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2011 with a \$11,069,014 net asset balance compared to the prior year ending net asset balance of \$10,652,833, an increase of 3.91%. An increase in capital assets and a decrease in the related debt contributed to the increase in net assets.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2011 with a net asset balance of \$3,604,033 compared to \$3,281,334 for the previous fiscal year, an increase of 9.83%. An increase in amounts invested in capital assets and a decrease in current liabilities contributed to the increase in net assets along with increases in gallons of wastewater processed.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2011 with a net asset balance of \$6,501,235 compared to the prior year ending net asset balance of \$5,807,435, an increase of 9.83%. An increase in the gallons of waste and the strength of waste treated offset by a slight increase in wastewater processing costs contributed to the increase in net assets.

## **CAPITAL ASSETS**

The Utilities capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$2,853,117 was invested in new capital assets, after accounting for depreciation, there was an increase of \$1,524,527 in Capital Assets from June 30, 2010.

## **LONG-TERM DEBT**

As of June 30, 2011, the Utilities had \$4.082 million in outstanding debt compared to \$4.619 million as of June 30, 2010. The decrease represents principal payments made during the fiscal year ended June 30, 2011 plus funds advanced for the water meter replacement program financed through the State of Iowa Revolving Loan Fund. The outstanding debt of the Water Utility consists entirely of revenue bonds, which are secured by future water revenues.

Additional information on the Utilities long-term debt is provided in Note 5 of the financial statements.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

The Utilities receipts were \$950,069 more than budgeted. Receipts in the Electric Utility were more than anticipated due to increases in kilowatts sold and receipts in the Joint Treatment Utility were more than anticipated due to increased gallons of industrial waste treated.

Total expenditures were \$2,878,345 less than budgeted. Delays in capital projects in each utility contributed to this variance.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Various economic factors were considered when establishing the Utilities budget for fiscal 2011. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2012, the Utilities will review all rate structures to determine if any rate changes will be needed. Planned capital additions will be financed

through cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

## COMMUNITY BENEFITS PROVIDED

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
KWH Billed	158,595,988	151,719,023
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0165</u>	<u>0.0181</u>
(1) Calculated total electric savings	\$ 2,616,834	\$ 2,746,114
(2) Transfer to City general fund in lieu of taxes	283,386	300,094
(3) New housing assistance program	0	6,003
(4) Water heater rebates	<u>7,480</u>	<u>7,385</u>
Total Community Benefits	<u>\$ 2,907,700</u>	<u>\$ 3,059,596</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to support local housing projects by reimbursing 90% of costs associated with installing electric, water, and sewer connections from main lines to the house or duplex; however, the reimbursement amount is not to exceed \$2,000 per structure. In the case of multi-family dwellings, in excess of two units, the reimbursement amount is not to exceed \$500 per dwelling unit.
- (4) Denison Municipal Utilities has agreed to support an energy efficient water heater rebate program. All participants in the water heater rebate program are required to be on the load management system.

## ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utilities rate payers, creditors and other interested parties with a general overview of the Utilities financial operations and financial condition. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Denison Municipal Utilities' Manager of Finance and Customer Information at PO Box 518, Denison, IA 51442.

## **Basic Financial Statements**

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2011 and 2010**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2011	2010
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Plant in Service, at cost	\$ 52,552,857	\$ 49,702,994
Less: Accumulated depreciation	25,725,242	24,399,906
Net Utility Plant	<u>\$ 26,827,615</u>	<u>\$ 25,303,088</u>
<b>OTHER ASSETS</b>		
Restricted		
Revenue bond reserve	\$ 793,279	\$ 1,189,369
Loan origination fee, net of accumulated amortization	24,870	27,357
Unrestricted		
Note receivable	500,000	625,000
Equipment replacement investment	851,946	697,787
	<u>\$ 2,170,095</u>	<u>\$ 2,539,513</u>
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 70,611	\$ 75,906
Unrestricted		
Cash	2,841,697	1,792,896
Deposits and investments	6,985,030	7,228,300
Accounts receivable	909,267	906,938
Unbilled usage	704,390	678,747
Due from other funds	35,202	25,226
Interest receivable	20,366	29,031
Inventory	619,138	856,226
Prepaid insurance	123,373	110,078
Note receivable	125,000	125,000
Total Current Assets	<u>\$ 12,434,074</u>	<u>\$ 11,828,348</u>
Total Assets	<u><u>\$ 41,431,784</u></u>	<u><u>\$ 39,670,949</u></u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2011 and 2010**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2011	2010
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 22,770,294	\$ 20,711,477
Restricted net assets	776,067	1,171,572
Unrestricted net assets	11,956,942	11,738,321
Total Net Assets	<u>\$ 35,503,303</u>	<u>\$ 33,621,370</u>
LONG-TERM DEBT		
Net of current maturities	<u>\$ 3,434,191</u>	<u>\$ 4,030,968</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,341,552	\$ 955,267
Due to other funds	35,202	25,226
Accrued vacation and sick leave	332,061	303,461
Other accrued liabilities	37,152	37,954
Payable from restricted assets		
Current maturities of long-term debt	648,000	588,000
Interest payable	30,033	34,503
Consumers' deposits	70,290	74,200
Total Current Liabilities	<u>\$ 2,494,290</u>	<u>\$ 2,018,611</u>
Total Liabilities and Net Assets	<u>\$ 41,431,784</u>	<u>\$ 39,670,949</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2011 and 2010**

**Exhibit B**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2011	Total 2010
<b>ASSETS</b>						
<b>UTILITY PLANT</b>						
Plant in Service, at cost	\$ 19,205,508	19,329,565	5,171,535	8,846,249	52,552,857	49,702,994
Less: Accumulated depreciation	10,884,515	8,700,924	2,807,654	3,332,149	25,725,242	24,399,906
Net Utility Plant	<u>\$ 8,320,993</u>	<u>10,628,641</u>	<u>2,363,881</u>	<u>5,514,100</u>	<u>26,827,615</u>	<u>25,303,088</u>
<b>OTHER ASSETS</b>						
Restricted						
Revenue bond reserve	\$ 0	793,279	0	0	793,279	1,189,369
Loan origination fee, net of accumulated amortization	0	24,870	0	0	24,870	27,357
Unrestricted						
Note receivable - Joint Treatment Utility	500,000	0	0	0	500,000	625,000
Equipment replacement investment	0	0	0	851,946	851,946	697,787
Total Other Assets	<u>\$ 500,000</u>	<u>818,149</u>	<u>0</u>	<u>851,946</u>	<u>2,170,095</u>	<u>2,539,513</u>
<b>CURRENT ASSETS</b>						
Restricted						
Consumers' deposit fund	\$ 70,611	0	0	0	70,611	75,906
Unrestricted						
Cash	1,299,368	685,990	71,683	784,656	2,841,697	1,792,896
Deposits and investments	3,587,188	2,372,567	1,025,275	0	6,985,030	7,228,300
Accounts receivable	474,976	180,463	118,061	135,767	909,267	906,938
Unbilled usage	503,361	121,413	79,616	0	704,390	678,747
Due from other funds	5,193	8,774	20,411	824	35,202	25,226
Interest receivable	17,549	1,212	1,605	0	20,366	29,031
Inventory	513,164	105,974	0	0	619,138	856,226
Prepaid insurance	47,367	46,268	10,750	18,988	123,373	110,078
Note receivable - Joint Treatment Utility	125,000	0	0	0	125,000	125,000
Total Current Assets	<u>\$ 6,643,777</u>	<u>3,522,661</u>	<u>1,327,401</u>	<u>940,235</u>	<u>12,434,074</u>	<u>11,828,348</u>
Total Assets	<u>\$ 15,464,770</u>	<u>14,969,451</u>	<u>3,691,282</u>	<u>7,306,281</u>	<u>41,431,784</u>	<u>39,670,949</u>

See notes to financial statements.



**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2011 and 2010**

**Exhibit B**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2011	Total 2010
<b>LIABILITIES AND NET ASSETS</b>						
<b>NET ASSETS</b>						
Invested in Capital Assets, net of related debt	\$ 8,320,993	7,196,320	2,363,881	4,889,100	22,770,294	20,711,477
Restricted net assets	321	775,746	-	-	776,067	1,171,572
Unrestricted net assets	6,007,707	3,096,948	1,240,152	1,612,135	11,956,942	11,738,321
Total Net Assets	<u>\$ 14,329,021</u>	<u>11,069,014</u>	<u>3,604,033</u>	<u>6,501,235</u>	<u>35,503,303</u>	<u>33,621,370</u>
<b>LONG-TERM DEBT -</b>						
Net of current maturities	<u>\$ 0</u>	<u>2,934,191</u>	<u>0</u>	<u>500,000</u>	<u>3,434,191</u>	<u>4,030,968</u>
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 835,289	325,058	16,975	164,230	1,341,552	955,267
Due to other funds	27,804	3,283	3,171	944	35,202	25,226
Accrued vacation and sick leave	185,104	85,012	61,945	0	332,061	303,461
Other accrued liabilities	17,262	12,360	5,158	2,372	37,152	37,954
Payable from restricted assets						
Current maturities of long-term debt	0	523,000	0	125,000	648,000	588,000
Interest payable	0	17,533	0	12,500	30,033	34,503
Consumers' deposits	70,290	0	0	0	70,290	74,200
Total Current Liabilities	<u>\$ 1,135,749</u>	<u>966,246</u>	<u>87,249</u>	<u>305,046</u>	<u>2,494,290</u>	<u>2,018,611</u>
Total Liabilities and Net Assets	<u>\$ 15,464,770</u>	<u>14,969,451</u>	<u>3,691,282</u>	<u>7,306,281</u>	<u>41,431,784</u>	<u>39,670,949</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2011 and 2010**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2011	Total 2010
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 9,025,296	2,311,362	1,148,843	1,768,147	14,253,648	12,793,648
Other operating revenues	35,179	0	0	0	35,179	32,503
Total operating revenues	<u>\$ 9,060,475</u>	<u>2,311,362</u>	<u>1,148,843</u>	<u>1,768,147</u>	<u>14,288,827</u>	<u>12,826,151</u>
<b>OPERATING EXPENSES</b>						
Cost of Power	\$ 7,233,038	0	0	0	7,233,038	6,720,499
Plant & main maintenance	86,274	0	274,197	0	360,471	312,819
Power & pumping	0	198,703	0	0	198,703	209,706
Distribution expense	452,409	201,829	0	0	654,238	600,724
Purification	0	470,154	0	0	470,154	489,341
Waste water processing expense	0	0	0	635,944	635,944	516,501
Joint treatment costs	0	0	286,428	0	286,428	269,566
Consumer accounting & collection	99,655	76,380	51,296	0	227,331	252,017
Administrative & general	439,721	214,617	91,408	165,341	911,087	899,619
Insurance	200,051	152,779	51,954	76,071	480,855	475,240
Transportation	39,322	14,135	10,991	10,761	75,209	64,402
Total operating expenses excluding depreciation	<u>\$ 8,550,470</u>	<u>1,328,597</u>	<u>766,274</u>	<u>888,117</u>	<u>11,533,458</u>	<u>10,810,434</u>
<b>OPERATING INCOME BEFORE DEPRECIATION</b>	\$ 510,005	982,765	382,569	880,030	2,755,369	2,015,717
<b>DEPRECIATION</b>	<u>496,003</u>	<u>563,683</u>	<u>85,079</u>	<u>182,225</u>	<u>1,326,990</u>	<u>1,328,885</u>
<b>OPERATING INCOME</b>	\$ 14,002	419,082	297,490	697,805	1,428,379	686,832
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Miscellaneous	\$ 226,145	79,090	14,789	17,984	338,008	219,402
Hazard Mitigation grant	145,144	0	0	0	145,144	6,410
Interest income	63,962	33,604	11,044	5,511	114,121	200,804
Interest expense	0	(115,595)	0	(27,500)	(143,095)	(156,236)
Loss on the sale of property and equipment	0	0	(624)	0	(624)	0
Economic development costs	0	0	0	0	0	(160,333)
Total nonoperating revenues (expenses)	<u>\$ 435,251</u>	<u>(2,901)</u>	<u>25,209</u>	<u>(4,005)</u>	<u>453,554</u>	<u>110,047</u>
<b>NET INCOME (LOSS)</b>	\$ 449,253	416,181	322,699	693,800	1,881,933	796,879
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>13,879,768</u>	<u>10,652,833</u>	<u>3,281,334</u>	<u>5,807,435</u>	<u>33,621,370</u>	<u>32,824,491</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 14,329,021</u>	<u>11,069,014</u>	<u>3,604,033</u>	<u>6,501,235</u>	<u>35,503,303</u>	<u>33,621,370</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**COMBINING STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2011 and 2010**

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2011	Total 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)	\$ 449,253	416,181	322,699	693,800	1,881,933	796,879
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	496,003	563,683	85,079	182,225	1,326,990	1,328,885
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Loss on the sale of property and equipment	0	0	624	0	624	0
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	5,295	0	0	0	5,295	1,110
(Increase) decrease in trade receivables	6,671	8,915	2,703	(20,618)	(2,329)	(35,967)
(Increase) decrease in unbilled usage	(11,308)	(8,930)	(5,405)	0	(25,643)	(57,662)
(Increase) decrease in inventories	(41,480)	278,568	0	0	237,088	(375,160)
(Increase) decrease in prepaid expenses	(3,483)	(7,700)	(755)	(1,357)	(13,295)	(5,602)
(Increase) decrease in other current assets	3,948	1,815	(6,965)	(109)	(1,311)	82,584
Increase (decrease) in accounts payable and accrued liabilities	31,408	264,087	(24,209)	148,304	419,590	(271,937)
Increase (decrease) in customer deposits	(3,910)	0	0	0	(3,910)	11,550
Net cash provided by (used in) operating activities	932,397	1,519,106	373,771	1,002,245	3,827,519	1,477,167
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale/maturities of securities	3,268,040	3,207,978	849,649	0	7,325,667	11,047,804
Purchase of investment securities	(3,400,842)	(2,424,417)	(861,049)	(154,159)	(6,840,467)	(10,133,284)
Purchase of property and equipment	(475,742)	(1,757,395)	(457,382)	(162,598)	(2,853,117)	(1,466,364)
Proceeds from the sale of property and equipment	0	0	976	0	976	0
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	(483,544)	(973,834)	(467,806)	(316,757)	(2,241,941)	(426,844)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from long-term borrowing	0	51,223	0	0	51,223	402,968
Principal payments on long-term borrowings	0	(463,000)	0	(125,000)	(588,000)	(572,000)
Net cash provided by (used in) financing activities	0	(411,777)	0	(125,000)	(536,777)	(169,032)
Net increase (decrease) in cash and cash equivalents	448,853	133,495	(94,035)	560,488	1,048,801	881,291
Cash and cash equivalents:						
Beginning	850,515	552,495	165,718	224,168	1,792,896	911,605
Ending	\$ 1,299,368	685,990	71,683	784,656	2,841,697	1,792,896

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**June 30, 2011 and 2010**

**Exhibit E**

	<u>2011</u>	<u>2010</u>
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 279,574	\$ 217,804
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>279,574</u></u>	\$ <u><u>217,804</u></u>
LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>279,574</u>	<u>217,804</u>
Total Current Liabilities	\$ <u><u>279,574</u></u>	\$ <u><u>217,804</u></u>
Total Liabilities and Net Assets	\$ <u><u>279,574</u></u>	\$ <u><u>217,804</u></u>

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DENISON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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**Note 1 – Summary of Significant Accounting Policies**

The Denison Municipal Utilities (the Utilities) is governed by a Board of Trustees that are appointed by the Mayor of Denison, Iowa and approved by the City Council. Services provided are electric, water, sewer and joint treatment for industrial wastes. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the utilities are described below:

***Reporting entity***

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations and (5) accountability for fiscal matters.

In accordance with these criteria the Denison Municipal Utilities has been identified as a component unit of the City of Denison, Iowa, due primarily to the fact that the City of Denison selects the Board of Trustees.

***Basis of Presentation***

The accounts of Denison Municipal Utilities are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

The Statement of Net Assets displays the Utilities assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

### ***Measurement Focus and Basis of Accounting***

The proprietary funds financial statements are reported using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

GASB pronouncements and non-conflicting pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 are applied in the preparation of the accompanying financial statements. Management does not apply FASB pronouncements issued after November 30, 1989.

Denison Municipal Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denison Municipal Utilities’ principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### ***Assets, Liabilities and Net Assets***

The following accounting policies are followed in preparing the Statement of Net Assets:

***Cash, Investments and Cash Equivalents*** - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2011. Investments consist of non-negotiable certificates of deposit which are stated at cost.

***Restricted Assets*** - Funds set aside for payment of customer deposits are classified as restricted. Also, funds set aside for payment of bond principal and interest are classified as restricted. Funds classified as restricted are not available to pay expenses other than those expenses for which the fund is restricted in accordance with the Utilities policy. The amount and purpose of the restricted net assets are as follows:

<b>Restricted For</b>	<b>2011</b>	<b>2010</b>
Debt Service	\$ 775,746	\$1,169,866
Consumer Deposits	321	1,706

***Receivables, Unbilled Usage and Credit Policies*** - Accounts receivable are uncollateralized customer obligations due under normal terms requiring payment twenty days after the billing date. Unpaid accounts receivable are considered delinquent and are assessed a penalty. Payments of accounts receivable are allocated to the specific bills identified by the customer, or if unspecified, are applied to the earliest unpaid bill.

Accounts receivable are stated at the amount billed to the customer plus any unpaid penalties and are recorded in the period the service is billed. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

***Inventories*** - Materials and supplies inventory are held for consumption and are valued at average cost.

***Utility Plant*** - The electric plant was estimated at replacement cost at August 31, 1969 and the Water Utility fixed assets were valued by utility employees at March 31, 1951. The employees used estimated historical costs because original historical cost was not available and the difference between such amounts was believed to be immaterial. All subsequent additions are valued at historical cost. Where additions are made by Utilities personnel, the direct cost of materials and labor are capitalized.

Major costs for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2011.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

Plant	20-40 years
Distribution & Collection	15-40 years
Machinery & Equipment	5-10 years
General Buildings	30-40 years
Transportation Equipment	5-10 years

***Compensated Absences*** - The Utilities allows employees to accumulate a maximum of 25 working days of vacation leave. An employee may carry forward a maximum of ten days of each year's earned vacation. Any vacation leave in excess of these two limits will be lost. Upon separation from the Utilities, unused vacation leave will be paid to the employee.

The Utilities also allows employees to accumulate up to a total of 60 working days of sick leave. If sick leave is not used during the year, a minimum of six days of unused sick leave must be carried forward. Employees may elect to take pay for unused sick leave in excess of the six days which must be carried forward to the maximum accumulation of 60 days. At such time as 60 days of sick leave have been accumulated, an employee may elect to take pay for all unused sick leave in a year. Pay shall be granted to an employee for unused sick leave upon separation from the Utilities.

***Long-Term Obligations*** - Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as origination fee, are deferred and amortized over the life of the respective debt.

***Designated Net Assets*** - The Board of Trustees has designated certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net assets, are designated as emergency funds and shall only be expended for that purpose. The cash reserve funds are not to be used to pay for ongoing operating expenditures or capital improvements unless approved by the Board.

### ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

### ***Budgets and Budgetary Accounting***

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for Electric, Water, Sewer and Joint Treatment. The budget of the Utilities is submitted following required public notice and hearing.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

### **Note 2 – Deposits and Investments**

The Utilities deposits at June 30, 2011 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Utilities or the Utilities' agent in the Utilities name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper, perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statements.



### Note 3 – Utility Plant

Capital asset activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,086,792	\$ 0	\$ 0	\$ 1,086,792
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,298,945</u>	<u>0</u>	<u>0</u>	<u>1,298,945</u>
Plant	15,746,579	1,354,889	0	17,101,468
Distribution & Collection	20,222,587	1,319,706	0	21,542,293
Machinery & Equipment	842,341	19,574	3,255	858,660
General Buildings	2,132,268	0	0	2,132,268
Transportation Equipment	1,222,535	0	0	1,222,535
Joint Treatment Facility	<u>8,237,739</u>	<u>158,949</u>	<u>0</u>	<u>8,396,688</u>
Depreciable Capital Assets	48,404,049	2,853,118	3,255	51,253,912
Less Accumulated Depreciation	<u>24,399,906</u>	<u>1,326,990</u>	<u>1,654</u>	<u>25,725,242</u>
Depreciable Capital Assets-Net	<u>24,004,143</u>	<u>1,526,128</u>	<u>1,601</u>	<u>25,528,670</u>
Net Capital Assets	<u>\$25,303,088</u>	<u>\$ 1,526,128</u>	<u>\$ 1,601</u>	<u>\$26,827,615</u>

Depreciation charged to operations for the years ended June 30, 2011 and 2010 was \$1,326,990 and \$1,328,885 respectively. Construction in progress included in the above amounts is \$1,970,464 and \$270,958 for June 30, 2011 and 2010 respectively. No depreciation was taken on the construction in progress amounts.

### Note 4 – Loan Origination Fee

The original cost of the loan origination fee for the Water Revenue Capital Loan – Series 2001 was \$48,080, which was incurred in March 2002 and is being amortized over the remaining life of the loan.

### Note 5 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2011:

	Series 2001 Water Revenue Capital Loan Note	Series 2007 Water Revenue Refunding Capital Loan Notes	Series 2010 Water Revenue Capital Loan Note	Total Debt Payable
Balance July 1, 2010	2,991,000	475,000	402,968	3,868,968
Issued	0	0	51,223	51,223
Redeemed	<u>(233,000)</u>	<u>(230,000)</u>	<u>0</u>	<u>(463,000)</u>
Balance June 30, 2011	2,758,000	245,000	454,191	3,457,191
Less: current portion	<u>(240,000)</u>	<u>(245,000)</u>	<u>(38,000)</u>	<u>(523,000)</u>
Long-term debt, net of current portion	<u>2,518,000</u>	<u>0</u>	<u>416,191</u>	<u>2,934,191</u>

Annual debt service requirements to maturity for water revenue notes are as follows:

Year Ending June 30	Series 2007		Series 2001		
	Principal	Interest	Principal	Interest	Service Fees
2012	\$ 245,000	9,555	240,000	82,740	6,895
2013	-	-	248,000	75,540	6,295
2014	-	-	255,000	68,100	5,675
2015	-	-	263,000	60,450	5,038
2016	-	-	271,000	52,560	4,380
2017	-	-	279,000	44,430	3,703
2018	-	-	287,000	36,060	3,005
2019	-	-	296,000	27,450	2,287
2020	-	-	305,000	18,570	1,547
2021	-	-	314,000	9,420	785
	<u>\$ 245,000</u>	<u>9,555</u>	<u>2,758,000</u>	<u>475,320</u>	<u>39,610</u>

Year Ending June 30	Series 2010 Revenue Bonds			Series 2010 Forgivable Loan			Series 2010 Total		
	Principal	Interest	Service Fees	Principal	Interest	Service Fees	Principal	Interest	Service Fees
2012	\$ 37,000	10,416	1,075	1,000	1,650	268	38,000	12,066	1,343
2013	38,000	11,790	982	10,000	3,180	265	48,000	14,970	1,247
2014	40,000	10,650	888	11,000	2,880	240	51,000	13,530	1,128
2015	41,000	9,450	787	11,000	2,550	213	52,000	12,000	1,000
2016	42,000	8,220	685	11,000	2,220	185	53,000	10,440	870
2017	44,000	6,960	580	12,000	1,890	158	56,000	8,850	738
2018	45,000	5,640	470	12,000	1,530	127	57,000	7,170	597
2019	46,000	4,290	358	13,000	1,170	97	59,000	5,460	455
2020	14,191	426	243	13,000	780	65	27,191	1,206	308
2021	-	-	-	13,000	390	32	13,000	390	32
	<u>\$ 347,191</u>	<u>67,842</u>	<u>6,068</u>	<u>107,000</u>	<u>18,240</u>	<u>1,650</u>	<u>454,191</u>	<u>86,082</u>	<u>7,718</u>

The debt service requirements for the Series 2010 Water Revenue Capital Loan Note are based on the total funds available to be disbursed as the project is in the construction phase. Total funds available under the Series 2010 Water Revenue Capital Loan Note are \$537,000. Of this amount \$107,000 is a forgivable loan pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). If the requirements of ARRA are not met the loan will not be forgiven and additional costs may apply.

The Utilities has pledged future water utility revenue, net of specified operating expenses, to repay outstanding water revenue bonds. The bonds are payable solely from the water utility's net revenues. Revenue bond provisions include requirements to make sufficient monthly transfers to Water sinking fund accounts for the purpose of paying bond principal and interest when due. These requirements have been met.

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the long-term liability activity for the fiscal year ended June 30, 2011:

	Notes Payable
Balance July 1, 2010	\$ 750,000
Redeemed	(125,000)
Balance June 30, 2011	625,000
Less: current portion	(125,000)
Long-term debt, net of current portion	<u>\$ 500,000</u>

Annual debt service requirements to maturity for the inter-fund loan are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	125,000	25,000
2013	125,000	20,000
2014	125,000	15,000
2015	125,000	10,000
2016	<u>125,000</u>	<u>5,000</u>
	<u>\$ 625,000</u>	<u>75,000</u>

#### **Note 6 – Pension and Retirement Benefits**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Utilities is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$104,388, \$95,436, and \$87,631 respectively, equal to the required contributions for the year.

The Utilities sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utilities will contribute up to \$50 per month for all employees contributing at least \$50 per month of their salary. The Utilities' contribution for the year ended June 30, 2011 and 2010 was \$14,900 and \$14,000 respectively.

#### **Note 7 – Major Customers**

A significant portion of the Electric Utility and Water Utility revenue is derived from a single customer. This customer accounted for approximately 33% of the Electric Utility usage and 46% of the Water Utility usage for the year ended June 30, 2011.

#### **Note 8 – Concentrations**

Denison Municipal Utilities provides utility services to residential, commercial, and industrial customers in a specified service area in and around the City of Denison, Iowa. Credit is granted to substantially all customers, all of whom are local businesses and residents. All new customers of the Utilities are required to pay a deposit to start service unless the customer provides a credit reference from a previous utility company. The deposit is applied to the customer's utility account after seven months of timely payments or refunded to a customer if a deposit remains when they move out of the Utilities service area. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

## Note 9 – Post-employment Benefits (OPEB)

*Plan Description* - In addition to the pension benefits described in Note 6, the Utilities provides health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utilities group health insurance plan, which covers both active and retired members. The benefits are 100% of premium costs for employees retiring with thirty years of employment, 75% for employees with twenty-five years of employment and 50% for employees with twenty years of employment. Benefits terminate once a retired employee qualifies for Medicare. Benefit provisions are established by the Board of Trustees.

*Funding Policy* – The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The Utilities incurred \$15,969 for retiree health premiums and \$3,493 of self-funding costs during the current fiscal year as a result of this program.

*Annual OPEB Cost and Net OPEB Obligation* - The Utilities annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utilities. Denison Municipal Utilities has elected to calculate the ARC and related information using the alternative measurement method permitted by the Government Accounting Standards Board for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utilities annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Utilities net OPEB obligation:

Annual required contribution	\$ 16,521
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	16,521
Contributions made	<u>(15,969)</u>
Increase in net OPEB obligation	552
Net OPEB obligation beginning of year	<u>11,924</u>
Net OPEB obligation end of year	<u>\$ 12,476</u>

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 16,521	96.7%	\$ 12,476

*Funded Status and Funding Progress* - As of June 30, 2011, the actuarial accrued liability for benefits was \$145,817, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,533,107, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.5%. As of June 30, 2011 there were no trust fund assets.

*Methods and Assumptions* - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual

required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the Utilities and plan members and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Utilities and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

#### **Note 10 – Construction and Other Commitments**

The Utilities has entered into a construction contract totaling \$2,957,296 for the purchase and installation of a lime sludge dewatering press at the water treatment plant. At June 30, 2011, \$1,192,077 had been paid under the construction contract.

The Utilities has entered into a construction contract totaling \$1,733,000 for the installation of a sanitary sewer main and replacement of the screening and grit removal system. Change orders in the amount of \$37,676 have been approved for the project. As of June 30, 2011, \$174,944 had been paid under the construction contract.

The replacement of all residential and commercial electric meters with new meters that will be read through a radio transmission signal was approved February 24, 2011 with an anticipated cost of the meters to be \$245,344. The meters will be purchased and installed as time allows in the electric department. The cost of the meters, along with the related payroll costs is capitalized as the meters are installed in the system. As of June 30, 2011, \$71,191 had been paid for the purchase of the meters.

On September 15, 2009, project participation was approved with FEMA to convert a portion of the electric distribution system from overhead to underground. The estimated cost of the project is \$196,210 with the Denison Municipal Utilities match amount of 15% or \$29,432 through cash or in-kind labor and equipment. As of June 30, 2011, \$197,458 had been expended on the project and \$151,553 had been received from FEMA. The Utilities is waiting on final approval from FEMA for additional funding for the completion of the project.

Denison Municipal Utilities has undertaken a project to replace all residential and commercial water meters with new meters that will be read through a radio transmission signal. On December 15, 2009 a contract was awarded for the purchase of the new meters. As of June 30, 2011, 98% of the water meters have been converted to a radio read meter. The cost of the meters, along with the related payroll costs, is capitalized as the meters are installed in the system. The project is being funded through the proceeds from the Series 2010 Water Revenue Capital Loan Note discussed in Note 5.

On September 12, 1997, the Utilities entered into a contract, for a period of 40 years, for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). In April of 1999, WCIRW and the Utilities entered into an amended contract (first amendment) that arrives at the respective capital contribution of water production capital expenditures. The amendment contemplates WCIRW paying for 1.5 million gallons per day maximum plant capacity. In accordance with the contract, WCIRW has contributed capital in

the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW. WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

The WCIRW contract also provides that Denison Municipal Utilities shall retain ownership of its line, appurtenances, altitude valves, other valves and meters up to and including the meter within the present corporate limits of the City of Denison. Denison Municipal Utilities may purchase portions of WCIRW's system if the city limits of Denison are expanded.

#### **Note 11 – Risk Management**

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note 12 – Subsequent Events**

Management has evaluated subsequent events through September 21, 2011, the date on which the financial statements were available to be issued.

## **Required Supplementary Information**

DENISON MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2011

	Per Financial Statements	Accrual Adjustments	Budget Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Revenue/Receipts						
Charges for services	\$ 14,288,827	(27,972)	0	14,260,855	13,443,600	817,255
Interest income	114,121	8,665	0	122,786	191,500	(68,714)
Miscellaneous	482,528	0	125,000	607,528	406,000	201,528
Total Revenue/Receipts	14,885,476	(19,307)	125,000	14,991,169	14,041,100	950,069
Expenses/Expenditures						
Operating expenses	11,533,458	(372,990)	0	11,160,468	11,630,700	470,232
Interest expense & economic development costs	143,095	4,470	0	147,565	147,500	(65)
Debt payments	0	0	588,000	588,000	588,000	0
Depreciation & capital expenditures	1,326,990	0	1,526,127	2,853,117	5,248,000	2,394,883
Total Expenses/Expenditures	13,003,543	(368,520)	2,114,127	14,749,150	17,614,200	2,865,050
Net	1,881,933	349,213	(1,989,127)	242,019	(3,573,100)	3,815,119
Beginning Net Assets	33,621,370	(20,085,236)	(1,175,408)	12,360,726		
Ending Net Assets	\$ 35,503,303	(19,736,023)	(3,164,535)	12,602,745		

This budgetary comparison is presented as Required Supplementary Information in accordance with governmental generally accepted accounting principles. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. There were no amendments during the course of the fiscal year, nor was the budget exceeded.



DENISON MUNICIPAL UTILITIES  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%
2011	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,533,107	9.5%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## **Supplementary Information**

**DENISON MUNICIPAL UTILITIES**  
**ELECTRIC UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2011 and 2010**

**Schedule 1**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in Service, at cost	\$ 19,205,508	\$ 18,729,766
Less: Accumulated depreciation	10,884,515	10,388,512
Net Electric Utility Plant	<u>\$ 8,320,993</u>	<u>\$ 8,341,254</u>
<b>OTHER ASSETS</b>		
Note receivable-Joint Treatment Utility	\$ 500,000	\$ 625,000
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 70,611	\$ 75,906
Unrestricted		
Cash	1,299,368	850,515
Deposits and investments	3,587,188	3,454,386
Accounts receivable	474,976	481,647
Unbilled usage	503,361	492,053
Due from other funds	5,193	4,807
Interest receivable	17,549	21,883
Inventory	513,164	471,684
Prepaid insurance	47,367	43,884
Note receivable-Joint Treatment Utility	125,000	125,000
Total Current Assets	<u>\$ 6,643,777</u>	<u>\$ 6,021,765</u>
Total Assets	<u><u>\$ 15,464,770</u></u>	<u><u>\$ 14,988,019</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 8,320,993	\$ 8,341,254
Restricted net assets	321	1,706
Unrestricted net assets	6,007,707	5,536,808
Total Net Assets	<u>\$ 14,329,021</u>	<u>\$ 13,879,768</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 835,289	\$ 838,048
Due to other funds	27,804	17,774
Accrued vacation and sick leave	185,104	159,817
Other accrued liabilities	17,262	18,412
Payable from restricted assets		
Consumers' deposits	70,290	74,200
Total Current Liabilities	<u>\$ 1,135,749</u>	<u>\$ 1,108,251</u>
Total Liabilities and Net Assets	<u><u>\$ 15,464,770</u></u>	<u><u>\$ 14,988,019</u></u>

**DENISON MUNICIPAL UTILITIES**  
**ELECTRIC UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NETS ASSETS**  
**Years Ended June 30, 2011 and 2010**

**Schedule 1**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales to consumers	\$ 9,025,296	\$ 8,263,170
Other operating revenues	35,179	32,503
Total operating revenues	\$ <u>9,060,475</u>	\$ <u>8,295,673</u>
 OPERATING EXPENSES		
Cost of Power	\$ 7,233,038	\$ 6,720,499
Maintenance	86,274	84,841
Distribution expense	452,409	395,345
Consumer accounting & collection	99,655	107,485
Administrative & general	439,721	421,099
Insurance	200,051	205,083
Transportation	39,322	32,999
Total operating expenses excluding depreciation	\$ <u>8,550,470</u>	\$ <u>7,967,351</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 510,005	\$ 328,322
 DEPRECIATION	<u>496,003</u>	<u>492,957</u>
 OPERATING INCOME	\$ <u>14,002</u>	\$ <u>(164,635)</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 226,145	\$ 178,523
Hazard Mitigation Grant	145,144	6,410
Interest income	63,962	100,195
Economic development costs	-	(160,333)
Total nonoperating revenues (expenses)	\$ <u>435,251</u>	\$ <u>124,795</u>
 NET INCOME (LOSS)	\$ 449,253	\$ (39,840)
 NET ASSETS, BEGINNING OF YEAR	<u>13,879,768</u>	<u>13,919,608</u>
 NET ASSETS, END OF YEAR	\$ <u><u>14,329,021</u></u>	\$ <u><u>13,879,768</u></u>

**DENISON MUNICIPAL UTILITIES  
ELECTRIC UTILITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
Years Ended June 30, 2011 and 2010**

**Schedule 1**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 449,253	\$ (39,840)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	496,003	492,957
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	5,295	1,110
(Increase) decrease in trade receivables	6,671	(5,483)
(Increase) decrease in unbilled usage	(11,308)	(68,888)
(Increase) decrease in inventories	(41,480)	(72,125)
(Increase) decrease in prepaid expenses	(3,483)	(2,467)
(Increase) decrease in other current assets	3,948	35,602
Increase (decrease) in accounts payable and accrued liabilities	31,408	(264,658)
Increase (decrease) in customer deposits	(3,910)	11,550
Net cash provided by (used in) operating activities	<u>\$ 932,397</u>	<u>\$ 87,758</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 3,268,040	\$ 5,818,779
Purchase of investment securities	(3,400,842)	(5,024,998)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(475,742)	(705,927)
Net cash provided by (used in) investing activities	<u>\$ (483,544)</u>	<u>\$ 212,854</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	<u>\$ 0</u>	<u>\$ 0</u>
Net increase (decrease) in cash and cash equivalents	\$ 448,853	\$ 300,612
Cash and cash equivalents:		
Beginning	850,515	549,903
Ending	<u>\$ 1,299,368</u>	<u>\$ 850,515</u>

**DENISON MUNICIPAL UTILITIES  
ELECTRIC UTILITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS-ACTUAL TO BUDGET  
Year Ended June 30, 2011**

**Schedule 2**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 9,025,296	8,851,700	173,596
Other operating revenues	35,179	30,000	5,179
Total operating revenues	\$ <u>9,060,475</u>	<u>8,881,700</u>	<u>178,775</u>
 OPERATING EXPENSES			
Cost of Power	\$ 7,233,038	7,300,000	66,962
Maintenance	86,274	98,500	12,226
Distribution expense	452,409	444,500	(7,909)
Consumer accounting & collection	99,655	97,500	(2,155)
Administrative & general	439,721	423,500	(16,221)
Insurance	200,051	194,500	(5,551)
Transportation	39,322	40,000	678
Total operating expenses excluding depreciation	\$ <u>8,550,470</u>	<u>8,598,500</u>	<u>48,030</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 510,005	283,200	226,805
 DEPRECIATION	<u>496,003</u>	<u>465,000</u>	<u>(31,003)</u>
 OPERATING INCOME	\$ <u>14,002</u>	<u>(181,800)</u>	<u>195,802</u>
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 226,145	85,000	141,145
Hazard Mitigation Grant	145,144	150,000	(4,856)
Interest income	63,962	92,000	(28,038)
Economic development costs	-	(160,000)	160,000
Total nonoperating revenues (expenses)	\$ <u>435,251</u>	<u>167,000</u>	<u>268,251</u>
 NET INCOME (LOSS)	\$ 449,253	(14,800)	<u>464,053</u>
 NET ASSETS, BEGINNING OF YEAR	<u>13,879,768</u>	<u>10,726,530</u>	
 NET ASSETS, END OF YEAR	\$ <u><u>14,329,021</u></u>	<u><u>10,711,730</u></u>	

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2011 and 2010**

**Schedule 3**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>WATER UTILITY PLANT</b>		
Plant in Service, at cost	\$ 19,329,565	\$ 17,572,170
Less: Accumulated depreciation	8,700,924	8,137,241
Net Water Utility Plant	<u>\$ 10,628,641</u>	<u>\$ 9,434,929</u>
<b>OTHER ASSETS</b>		
Revenue bond reserve	\$ 793,279	\$ 1,189,369
Loan origination fee	24,870	27,357
Total Other Assets	<u>\$ 818,149</u>	<u>\$ 1,216,726</u>
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 685,990	\$ 552,495
Deposits and investments	2,372,567	2,760,039
Accounts receivable	180,463	189,378
Unbilled usage	121,413	112,483
Due from other funds	8,774	7,967
Interest receivable	1,212	3,834
Inventory	105,974	384,542
Prepaid insurance	46,268	38,568
Total Current Assets	<u>\$ 3,522,661</u>	<u>\$ 4,049,306</u>
 Total Assets	 <u>\$ 14,969,451</u>	 <u>\$ 14,700,961</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 7,196,320	\$ 5,593,318
Restricted nets assets	775,746	1,169,866
Unrestricted net assets	3,096,948	3,889,649
Total Net Assets	<u>\$ 11,069,014</u>	<u>\$ 10,652,833</u>
 LONG-TERM DEBT - Net of current maturities	 <u>\$ 2,934,191</u>	 <u>\$ 3,405,968</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 325,058	\$ 61,540
Due to other funds	3,283	3,650
Accrued vacation and sick leave	85,012	82,285
Other accrued liabilities	12,360	12,182
Payable from restricted assets		
Current maturities of long-term debt	523,000	463,000
Interest payable	17,533	19,503
Total Current Liabilities	<u>\$ 966,246</u>	<u>\$ 642,160</u>
 Total Liabilities and Net Assets	 <u>\$ 14,969,451</u>	 <u>\$ 14,700,961</u>

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

**Schedule 3**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>2,311,362</u>	\$ <u>2,211,864</u>
OPERATING EXPENSES		
Power & pumping	\$ 198,703	\$ 209,706
Distribution expense	201,829	205,379
Purification	470,154	489,341
Consumer accounting & collection	76,380	85,436
Administrative & general	214,617	217,658
Insurance	152,779	152,794
Transportation	14,135	10,839
Total operating expenses excluding depreciation	\$ <u>1,328,597</u>	\$ <u>1,371,153</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 982,765	\$ 840,711
DEPRECIATION	<u>563,683</u>	<u>561,538</u>
OPERATING INCOME	\$ <u>419,082</u>	\$ <u>279,173</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 79,090	\$ 19,786
Interest income	33,604	74,282
Interest expense	(115,595)	(123,736)
Total nonoperating revenues (expenses)	\$ <u>(2,901)</u>	\$ <u>(29,668)</u>
NET INCOME (LOSS)	\$ 416,181	\$ 249,505
NET ASSETS, BEGINNING OF YEAR	<u>10,652,833</u>	<u>10,403,328</u>
NET ASSETS, END OF YEAR	\$ <u><u>11,069,014</u></u>	\$ <u><u>10,652,833</u></u>



**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

**Schedule 3**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 416,181	\$ 249,505
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	563,683	561,538
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	8,915	(20,575)
(Increase) decrease in unbilled usage	(8,930)	9,588
(Increase) decrease in inventories	278,568	(303,035)
(Increase) decrease in prepaid expenses	(7,700)	(1,812)
(Increase) decrease in other current assets	1,815	27,891
Increase (decrease) in accounts payable and accrued liabilities	<u>264,087</u>	<u>(2,810)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,519,106</u>	<u>\$ 522,777</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 3,207,978	\$ 4,390,666
Purchase of investment securities	(2,424,417)	(4,093,758)
Purchase of property and equipment	<u>(1,757,395)</u>	<u>(308,045)</u>
Net cash provided by (used in) investing activities	<u>\$ (973,834)</u>	<u>\$ (11,137)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowing	\$ 51,223	\$ 402,968
Principal payments on long-term borrowing	<u>(463,000)</u>	<u>(447,000)</u>
Net cash provided by (used in) financing activities	<u>\$ (411,777)</u>	<u>\$ (44,032)</u>
 Net increase (decrease) in cash and cash equivalents	 \$ 133,495	 \$ 467,608
 Cash and cash equivalents:		
Beginning	552,495	84,887
Ending	<u><u>\$ 685,990</u></u>	<u><u>\$ 552,495</u></u>

**DENISON MUNICIPAL UTILITIES**  
**WATER UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2011**

**Schedule 4**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,311,362	2,287,500	23,862
OPERATING EXPENSES			
Power & pumping	\$ 198,703	207,000	8,297
Distribution expense	201,829	213,500	11,671
Purification	470,154	490,000	19,846
Consumer accounting & collection	76,380	71,500	(4,880)
Administrative & general	214,617	221,000	6,383
Insurance	152,779	135,000	(17,779)
Transportation	14,135	13,000	(1,135)
Total operating expenses excluding depreciation	\$ 1,328,597	1,351,000	22,403
OPERATING INCOME BEFORE DEPRECIATION	\$ 982,765	936,500	46,265
DEPRECIATION	563,683	560,000	(3,683)
OPERATING INCOME	\$ 419,082	376,500	42,582
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 79,090	25,000	54,090
Interest income	33,604	75,000	(41,396)
Interest expense	(115,595)	(120,000)	4,405
Total nonoperating revenues (expenses)	\$ (2,901)	(20,000)	17,099
NET INCOME (LOSS)	\$ 416,181	356,500	59,681
NET ASSETS, BEGINNING OF YEAR	10,652,833	7,847,026	
NET ASSETS, END OF YEAR	\$ 11,069,014	8,203,526	

**DENISON MUNICIPAL UTILITIES  
SEWER UTILITY  
COMPARATIVE STATEMENT OF NET ASSETS  
June 30, 2011 and 2010**

**Schedule 5**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>SEWER UTILITY PLANT</b>		
Plant in Service, at cost	\$ 5,171,535	\$ 4,717,408
Less: Accumulated depreciation	<u>2,807,654</u>	<u>2,724,230</u>
Net Sewer Utility Plant	\$ <u>2,363,881</u>	\$ <u>1,993,178</u>
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	71,683	165,718
Deposits and investments	1,025,275	1,013,875
Accounts receivable	118,061	120,764
Unbilled usage	79,616	74,211
Due from other funds	20,411	11,737
Interest receivable	1,605	3,314
Prepaid insurance	10,750	9,995
Total Current Assets	\$ <u>1,327,401</u>	\$ <u>1,399,614</u>
 Total Assets	 \$ <u><u>3,691,282</u></u>	 \$ <u><u>3,392,792</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 2,363,881	\$ 1,993,178
Restricted net assets	0	0
Unrestricted net assets	<u>1,240,152</u>	<u>1,288,156</u>
Total Net Assets	\$ <u>3,604,033</u>	\$ <u>3,281,334</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 16,975	\$ 42,220
Due to other funds	3,171	2,693
Accrued vacation and sick leave	61,945	61,359
Other accrued liabilities	<u>5,158</u>	<u>5,186</u>
Total Current Liabilities	\$ <u>87,249</u>	\$ <u>111,458</u>
 Total Liabilities and Net Assets	 \$ <u><u>3,691,282</u></u>	 \$ <u><u>3,392,792</u></u>

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

**Schedule 5**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>1,148,843</u>	\$ <u>1,051,855</u>
OPERATING EXPENSES		
Plant & main maintenance	\$ 274,197	\$ 227,978
Joint treatment processing	286,428	269,566
Consumer accounting & collection	51,296	59,096
Administrative & general	91,408	104,483
Insurance	51,954	52,530
Transportation	10,991	9,644
Total operating expenses excluding depreciation	\$ <u>766,274</u>	\$ <u>723,297</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 382,569	\$ 328,558
DEPRECIATION	<u>85,079</u>	<u>93,808</u>
OPERATING INCOME	\$ <u>297,490</u>	\$ <u>234,750</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 14,789	\$ 3,460
Loss on the sale of property and equipment	(624)	0
Interest income	11,044	20,765
Total nonoperating revenues (expenses)	\$ <u>25,209</u>	\$ <u>24,225</u>
NET INCOME (LOSS)	\$ 322,699	\$ 258,975
NET ASSETS, BEGINNING OF YEAR	<u>3,281,334</u>	<u>3,022,359</u>
NET ASSETS, END OF YEAR	\$ <u><u>3,604,033</u></u>	\$ <u><u>3,281,334</u></u>

**DENISON MUNICIPAL UTILITIES  
SEWER UTILITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
Years Ended June 30, 2011 and 2010**

**Schedule 5**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 322,699	\$ 258,975
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	85,079	93,808
Loss on the sale of property and equipment	624	0
Changes in assets and liabilities		
(Increase) decrease in trade receivables	2,703	8,209
(Increase) decrease in unbilled usage	(5,405)	1,638
(Increase) decrease in prepaid expenses	(755)	(493)
(Increase) decrease in other current assets	(6,965)	18,960
Increase (decrease) in accounts payable and accrued liabilities	<u>(24,209)</u>	<u>18,124</u>
Net cash provided by (used in) operating activities	<u>\$ 373,771</u>	<u>\$ 399,221</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 849,649	\$ 838,359
Purchase of investment securities	(861,049)	(860,597)
Purchase of property and equipment	(457,382)	(339,042)
Proceeds from the sale of property and equipment	<u>976</u>	<u>0</u>
Net cash provided by (used in) investing activities	<u>\$ (467,806)</u>	<u>\$ (361,280)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	<u>\$ 0</u>	<u>\$ 0</u>
Net cash provided by (used in) financing activities	<u>\$ 0</u>	<u>\$ 0</u>
Net increase (decrease) in cash and cash equivalents	\$ (94,035)	\$ 37,941
Cash and cash equivalents:		
Beginning	165,718	127,777
Ending	<u><u>\$ 71,683</u></u>	<u><u>\$ 165,718</u></u>

**DENISON MUNICIPAL UTILITIES**  
**SEWER UTILITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2011**

**Schedule 6**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 1,148,843	1,082,500	66,343
OPERATING EXPENSES			
Plant & main maintenance	\$ 274,197	300,000	25,803
Joint treatment processing	286,428	260,000	(26,428)
Consumer accounting & collection	51,296	48,000	(3,296)
Administrative & general	91,408	96,700	5,292
Insurance	51,954	50,500	(1,454)
Transportation	10,991	10,000	(991)
Total operating expenses excluding depreciation	\$ 766,274	765,200	(1,074)
OPERATING INCOME BEFORE DEPRECIATION	\$ 382,569	317,300	65,269
DEPRECIATION	85,079	105,000	19,921
OPERATING INCOME	\$ 297,490	212,300	85,190
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 14,789	5,000	9,789
Loss on the sale of property and equipment	(624)	0	(624)
Interest income	11,044	17,500	(6,456)
Total nonoperating revenues (expenses)	\$ 25,209	22,500	2,709
NET INCOME (LOSS)	\$ 322,699	234,800	87,899
NET ASSETS, BEGINNING OF YEAR	3,281,334	2,293,600	
NET ASSETS, END OF YEAR	\$ 3,604,033	2,528,400	

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT UTILITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**June 30, 2011 and 2010**

**Schedule 7**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>JOINT TREATMENT PLANT</b>		
Plant in Service, at cost	\$ 8,846,249	\$ 8,683,650
Less: Accumulated depreciation	3,332,149	3,149,923
Net Joint Treatment Plant	<u>\$ 5,514,100</u>	<u>\$ 5,533,727</u>
<b>OTHER ASSETS</b>		
Unrestricted		
Equipment replacement investment	\$ 851,946	\$ 697,787
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 784,656	\$ 224,168
Accounts receivable	135,767	115,149
Due from other funds	824	715
Interest receivable	0	0
Prepaid insurance	18,988	17,631
Total Current Assets	<u>\$ 940,235</u>	<u>\$ 357,663</u>
Total Assets	<u><u>\$ 7,306,281</u></u>	<u><u>\$ 6,589,177</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 4,889,100	\$ 4,783,727
Restricted net assets	0	0
Unrestricted net assets	1,612,135	1,023,708
Total Net Assets	<u>\$ 6,501,235</u>	<u>\$ 5,807,435</u>
LONG-TERM DEBT - Net of current maturities	<u>\$ 500,000</u>	<u>\$ 625,000</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 164,230	\$ 13,459
Due to other funds	944	1,109
Other accrued liabilities	2,372	2,174
Current maturities of long-term debt	125,000	125,000
Interest payable	12,500	15,000
Total Current Liabilities	<u>\$ 305,046</u>	<u>\$ 156,742</u>
Total Liabilities and Net Assets	<u><u>\$ 7,306,281</u></u>	<u><u>\$ 6,589,177</u></u>

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT UTILITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

**Schedule 7**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>1,768,147</u>	\$ <u>1,266,759</u>
OPERATING EXPENSES		
Waste water processing	\$ 635,944	\$ 516,501
Administrative & general	165,341	156,379
Insurance	76,071	64,833
Transportation	10,761	10,920
Total operating expenses excluding depreciation	\$ <u>888,117</u>	\$ <u>748,633</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 880,030	\$ 518,126
DEPRECIATION	<u>182,225</u>	<u>180,582</u>
OPERATING INCOME	\$ <u>697,805</u>	\$ <u>337,544</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 17,984	\$ 17,633
Interest income	5,511	5,562
Interest expense	(27,500)	(32,500)
Total nonoperating revenues (expenses)	\$ <u>(4,005)</u>	\$ <u>(9,305)</u>
NET INCOME (LOSS)	\$ 693,800	\$ 328,239
NET ASSETS, BEGINNING OF YEAR	<u>5,807,435</u>	<u>5,479,196</u>
NET ASSETS, END OF YEAR	\$ <u><u>6,501,235</u></u>	\$ <u><u>5,807,435</u></u>



**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT UTILITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
Years Ended June 30, 2011 and 2010**

**Schedule 7**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 693,800	\$ 328,239
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	182,225	180,582
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(20,618)	(18,118)
(Increase) decrease in prepaid expenses	(1,357)	(830)
(Increase) decrease in other current assets	(109)	131
Increase (decrease) in accounts payable and accrued liabilities	<u>148,304</u>	<u>(22,593)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,002,245</u>	<u>\$ 467,411</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(154,159)	(153,931)
Purchase of property and equipment	<u>(162,598)</u>	<u>(113,350)</u>
Net cash provided by (used in) investing activities	<u>\$ (316,757)</u>	<u>\$ (267,281)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	<u>(125,000)</u>	<u>(125,000)</u>
Net cash provided by (used in) financing activities	<u>\$ (125,000)</u>	<u>\$ (125,000)</u>
Net increase (decrease) in cash and cash equivalents	\$ 560,488	\$ 75,130
Cash and cash equivalents:		
Beginning	224,168	149,038
Ending	<u><u>\$ 784,656</u></u>	<u><u>\$ 224,168</u></u>

**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT UTILITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS-ACTUAL TO BUDGET  
Year Ended June 30, 2011**

**Schedule 8**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 1,768,147	1,177,500	590,647
OPERATING EXPENSES			
Waste water processing	\$ 635,944	532,500	(103,444)
Administrative & general	165,341	143,000	(22,341)
Insurance	76,071	69,000	(7,071)
Transportation	10,761	11,500	739
Total operating expenses excluding depreciation	\$ 888,117	756,000	(132,117)
OPERATING INCOME BEFORE DEPRECIATION	\$ 880,030	421,500	458,530
DEPRECIATION	182,225	177,000	(5,225)
OPERATING INCOME	\$ 697,805	244,500	453,305
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 17,984	16,000	1,984
Interest income	5,511	7,000	(1,489)
Interest expense	(27,500)	(27,500)	-
Total nonoperating revenues (expenses)	\$ (4,005)	(4,500)	495
NET INCOME (LOSS)	\$ 693,800	240,000	453,800
NET ASSETS, BEGINNING OF YEAR	5,807,435	59,500	
NET ASSETS, END OF YEAR	\$ 6,501,235	299,500	

## **OTHER REPORTS**

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Denison Municipal Utilities  
Denison, Iowa

We have audited the financial statements of the business-type activities, each major enterprise fund, and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Denison Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Denison Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over the financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Part II, II-A-11). A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Denison Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Denison Municipal Utilities' operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Denison Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Denison Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the trustees, officials, employees and customers of Denison Municipal Utilities, and other parties to whom the Denison Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By \_\_\_\_\_  
Certified Public Accountant

September 21, 2011

## DENISON MUNICIPAL UTILITIES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

#### PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (c) No material weaknesses in internal control were noted.

#### PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

##### Instances of Non-Compliance:

No matters were noted.

##### Significant Deficiencies:

- II-A-11 **Segregation of Duties** – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. The placing of orders, receiving of shipments, and approving vouchers for payment should all have adequate separation.

**Recommendation** – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities' have made reasonable efforts to segregate these duties. However, the Utilities' should review control procedures to obtain the maximum internal controls possible under the circumstances. In addition, supervisory review of financial transactions and reports remains extremely important when incompatible responsibilities cannot be segregated and should continue to be applied.

**Response** – We are aware of the need to segregate incompatible duties. We will continue to update and follow control procedures as they have been established including control procedures relating to cross-training.

**Conclusion** – Response accepted.

#### PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-A-11 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was exceeded at one of the financial institutions during the year.
- III-B-11 **Certified Budget** - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.

**PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:  
(continued)**

- III-C-11 **Questionable Disbursements** - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-11 **Travel Expenses** - No disbursement of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- III-E-11 **Business Transactions** - Business transactions between Denison Municipal Utilities and Utilities officials are immaterial and meet the guidelines of the Code of Iowa.
- III-F-11 **Surety Bond Coverage** - Surety bond coverage of Denison Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.
- III-G-11 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- III-H-11 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Denison Municipal Utilities' investment policy were noted.
- III-I-11 **Revenue Debt and Notes** - No instances of non-compliance with the water revenue debt and capital loan note requirements for the year ended June 30, 2011, were noted.